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RHMFISS/HQ USSOUTHCOM MIAMI FL
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RUEHCV/AMEMBASSY CARACAS 0002

C O N F I D E N T I A L ASUNCION 000567

SIPDIS
STATE FOR WHA/BSC MDASCHBACH, WHA/EPSC FCORNEILE

E.O. 12958: DECL: 2034/09/11
TAGS: ECON EFIN ENRG PGOV PREL VE PA
SUBJECT: PETROPAR'S DEBT ALBATROSS WITH PDVSA

REF: A. 09 ASUNCION 288; B. 08 ASUNCION 721; C. 08 ASUNCION 473
¶D. 08 ASUNCION 378; E. 08 ASUNCION 228

CLASSIFIED BY: Perry Holloway, DCM; REASON: 1.4(B), (D)

1.(C)SUMMARY: Paraguay's state-owned oil company PETROPAR is in negotiations with Venezuela's PDVSA about PETROPAR's USD 269 million past due debt. The press reported in August conflicting versions about possible Venezuelan debt forgiveness, but PETROPAR confirmed that PDVSA did not offer to condone the debt. PETROPAR's President Gonzalez Meyer told Econoff August 17 he refused PDVSA's strong push for joint ventures (storage and fuel stations) as a payment mechanism. According to Meyer, PDVSA's offer was an attempt to take advantage of PETROPAR's weak financial position by seeking control of important PETROPAR assets. PETROPAR and PDVSA agreed to restructure USD 232 million of the debt, but USD 37 million remains in dispute. PETROPAR has so far successfully held firm against PDVSA. However, PETROPAR is in a vulnerable position because its options for fuel supply and debt refinancing are limited -- sooner or later PETROPAR will concede to PDVSA's joint venture advances. END SUMMARY.

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ABOUT THE NEGOTIATIONS

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¶2. (SBU) Paraguay's state-owned oil company PETROPAR is in negotiations with Venezuela's PDVSA about PETROPAR's USD 269 million debt past due (reftels a, b, e). The press reported in August conflicting versions about possible Venezuelan debt forgiveness. Finance Minister Borda publically affirmed that PETROPAR's negotiations with PDVSA were ongoing but he did not discuss details about possible debt forgiveness by Venezuela. Industry and Commerce Minister Rivas, however, publically stated that PETROPAR has never asked PDVSA to condone the debt. Meanwhile, Liberal Party Senator Alfredo Jaeggli told the press that a Venezuelan debt pardon would be in exchange for Paraguay's use of the funds to support special "social" programs.

¶3. (C) PETROPAR President Juan Alberto Gonzalez Meyer told Econoff August 17 that PDVSA did not offer to condone the debt. Meyer, Paraguay's lead negotiator with PDVSA, explained that PDVSA proposed a payment of USD 162 million over two years and long-term refinancing for part of the remaining USD 107 million. Meyer expressed concern about PETROPAR's capacity to pay USD 162 million in two years, but emphasized that it could be possible if PETROPAR generates a minimum profit margin of about USD 0.05 per liter.

Meyer said PETROPAR is exploring other alternatives to pay or refinance its debt including international private lenders, multilaterals, a bond issue, and an increase in the price of diesel.

¶4. (C) Meyer was critical of PETROPAR's past management decisions, characterizing as "draconian" the latest contracts PETROPAR signed with PDVSA. (NOTE: The terms of the contracts included an 18 percent default rate, and assigned legal jurisdiction to Venezuela in case of a contractual dispute (reftel a) END NOTE). Meyer said PETROPAR's previous dealings with PDVSA reflect a "blatant disregard of best business practices". (NOTE: PETROPAR makes its fuel bid requests every six months. The contracts referenced by Meyer were signed by Alejandro Takahashi (appointed by Duarte Frutos) in mid-2008 and by Cibar Granado (appointed by Fernando Lugo) in early 2009. END NOTE.)

¶5. (C) Meyer said PDVSA proposed joint ventures as an alternative payment mechanism for PETROPAR's debt. According to Meyer, PDVSA suggested a joint venture to build storage capacity at PETROPAR's facility in Port Zarate, Argentina.(NOTE: Port Zarate is strategically located on the Paraguay-Parana Waterway. The Paraguay-Parana Waterway is Paraguay's most important transport route, moving over 90 percent of the country's traded goods. END NOTE.) Meyer said PDVSA also proposed a joint venture to use PETROPAR's service stations. Meyer explained that PDVSA referred to the Paraguay-Venezuela 2005 energy cooperation agreement (reftel e) to justify the joint venture proposals. (NOTE: The 2005 energy cooperation agreement mentions the interest of both countries in pursuing joint ventures. END NOTE.)

¶6. (C) Meyer described PDVSA's proposals as an unwelcome attempt to control key PETROPAR assets, trying to take advantage of PETROPAR's weak financial position. Meyer contended that PETROPAR will not entertain any joint venture proposals until its debt problem is solved. Meyers said PDVSA "is using the debt to pressure PETROPAR", and he refused PDVSA's proposals as inequitable. The negotiations with PDVSA, according to Meyer, have not impacted Paraguay's diesel supply from PDVSA. Meyer said that PETROPAR secured orders for the next six months with PDVSA, as PDVSA is consistently bidding the lowest price for PETROPAR's bid requests.

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AGREED TERMS AND PENDING ISSUES

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¶7. (SBU) According to the local press, Paraguayan President Fernando Lugo and Venezuelan President Hugo Chavez discussed PETROPAR's debt on the margins of the UNASUR meeting August 28. The understanding between Lugo and Chavez included: a) freezing USD 162 million for one year (at a rate of 2 percent) to give Paraguay time to figure out how it will pay its debt; b) refinancing USD 60 million to 15 years at an annual rate of 2 percent with a grace period of 2 years; c) paying USD 10 million in 2009; and d) renegotiating a transport fee charge of USD 37 million that Paraguay maintains is illegal.

¶8. (C) PDVSA delegates arrived in Asuncion September 3-4 to discuss with PETROPAR the disputed USD 37 million. PDVSA proposed that PETROPAR pay at least 15 percent of that total. PETROPAR argued that the entire amount is illegal and inconsistent with the 2005 Paraguay-Venezuela energy cooperation agreement. Each side held firm in its position, and the talks ended without any agreement.

¶9. (C) PETROPAR and Paraguayan barges servicing PETROPAR publically denounced in early September PDVSA's interest in Paraguay's river transport business. PDVSA announced in late August a venture with Argentine company Fluviomar to transport food products and hydrocarbons on the Paraguay-ParanC! Waterway. (NOTE: The Waterway river transport system links five countries in the Plata River Basin: Argentina, Bolivia, Brazil, Paraguay, and Uruguay. END NOTE). PETROPAR is concerned about PDVSA's attempts to control fuel shipments to Paraguay. Paraguayan-flagged barges servicing PETROPAR are concerned about a crowd-out from international barges. (NOTE: Paraguayan-flagged barges are part of PETROPAR's systemic corruption problems. END NOTE.)

10.(C) COMMENT: Meyer has so far successfully held firm against PDVSA in the negotiations, but PETROPAR is increasingly reliant on PDVSA for its fuel supply (reftel a). PETROPAR's dire financial situation makes it a vulnerable target for PDVSA, although PETROPAR's negotiations with PDVSA appear to be moving forward. PDVSA will likely continue to use its leverage to pressure Paraguay, despite Venezuela's public discourse about solidarity with Paraguay. PETROPAR could presumably hold out until next year before it concedes to PDVSA's joint-venture advances. However, Paraguay's options for supply and financing are limited -- sooner or later PETROPAR will yield to PDVSA's push for key PETROPAR assets through joint ventures. END COMMENT.
AYALDE